

The promotion of the macroeconomic growth

The two different schools of thought.

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Smith introduced, during his analyzation of the workings of free enterprise, a labor theory of value and a theory of distribution. Later on, British economist Ricardo expanded upon both ideas. In his labor theory of value, he emphasized that the value of goods produced and sold under competitive conditions tends to be proportionate to the labor costs acquired in producing them. Ricardo fully recognized, however, that over short periods price depends on supply and demand. This notion became central to classical economics, as did Ricardo's theory of distribution, which divided national product between three social classes: wages for workers, profits for owners of capital, and rents for landlords. Taking the limited growth potential of any national economy as a given, Ricardo concluded that a particular social class could gain a larger share of the product only at the expense of another.

Another one of Ricardo's findings was the principle of the comparative advantage, which states that every nation should specialize in the production of the commodities those can produce most efficiently

In terms of macro-economy, the Classical economists assumed that the economy would always return to the full-employment level of real output through an automatic self-adjustment mechanism.